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Approved For Release 2002/08/15 : CIA-RDP83-00415R012900110005-1536952

ORGANISATION FOR EUROPEAN
ECONOMIC CO-OPERATION

RESTRICTED

Paris, 5th December, 1950

C(50)348

Or. Fr.

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COUNCIL

REPORT BY THE SPECIAL RESTRICTED COMMITTEE
INSTRUCTED TO CONSIDER NORWAY'S POSITION
IN REGARD TO THE 60% STAGE.

(Cover Note by the Secretary of the Council)

1. Attached is the report by the Special Restricted Committee instructed to consider Norway's position in regard to the 60% stage.

2. This report has been communicated to the Joint Trade and Intra-European Payments Committee and is submitted to the Council in accordance with paras. 12 and 13 of the Council Decision of 18th August, 1950 [C(50)247(Final)].

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POSITION OF NORWAY
WITH REGARD TO THE 60% STAGE OF THE LIBERALISATION OF TRADE
REPORT BY THE SPECIAL RESTRICTED COMMITTEE

I. GENERAL

NOTIFICATION BY NORWAY

1. On 27th October 1950, the Norwegian Delegation informed the Secretariat that Norway was invoking Article 3(a) of the Code of the Liberalisation of Trade to justify her inability to free 60% of imports on private account in the sector of manufactured products.

ESTABLISHMENT OF THE RESTRICTED COMMITTEE

2. In accordance with Article 18 of the Code of the Liberalisation of Trade and the Council Decision of 18th August 1950 /C(50)247(Final)/, the Secretary-General immediately set up a Special Restricted Committee to examine the Norwegian Memorandum containing the liberalisation measures referred to in Article 2(a) of the Code.

After lots had been drawn, the Committee was constituted as follows :

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Mr. CHRISTIDIS (Greece)
Mr. FLEMING (United Kingdom)
Mr. FRIIS (Denmark)
Mr. GOETZ (Germany)
Mr. KLOSS (Austria)

3. In accordance with Article 7 of the Council Decision /C(50)247(Final)/, the Committee elected Mr. CHRISTIDIS as its Chairman. A United States representative attended the Committee's meetings but did not take part in the discussions leading to its conclusions. Finally, the Delegate for Norway was requested to answer questions and to give the Committee some additional information.

II. THE COMMITTEE'S FINDINGS

4. Having examined all the available facts, together with the additional information supplied by the Norwegian Delegation, the Committee took note of the following main points, before making its conclusions:

5. Whereas shipping was included in total imports in Norway's official trade returns, it was not taken into account in the Norwegian memorandum in calculating the liberalisation percentages in the sector of manufactured products. The Committee considered that, since Annex B of the Code laid down that liberalisation percentages should be based on the official trade returns of Member countries for the year 1948, it could not admit any departure from this principle. Such a departure would create an undesirable precedent. Furthermore, imports of shipping had already been taken into account in the calculations on which Norway's quota in E.P.U. had been based. The liberalisation percentages accepted by the Committee were therefore as follows :-

Total	44.7%
Agricultural products	67.5%
Raw materials	83.6%
Manufactured products	29.4%

6. However, the question of the inclusion of shipping was borne in mind by the Committee when it examined the reasons which had prevented Norway from reaching the required percentage in the category of manufactured products. Since imports of shipping during

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the reference year 1948 amounted to 40% of imports of manufactured products, Norway would have been obliged, if it could not contemplate the liberalisation of any category of shipping whatever, to free nearly all manufactured products other than shipping in order to reach the liberalisation percentage fixed by the Council.

BALANCE OF PAYMENTS

7. In examining the balance of payments difficulties which might result from any extension of Norway's liberalisation measures, the Committee considered firstly Norway's balance of payments vis-à-vis the monetary area of O.E.E.C. Member countries, and secondly, the possible effects on her dollar reserves of any gold or dollar payments she might be obliged to make in settlement of deficits incurred inside E.P.U.

8. The following figures, supplied by the Agent, illustrate the evolution of Norway's balance of payments vis-à-vis the monetary area of Member countries.

<u>Period</u>	<u>Net deficit (\$ million)</u>
4th quarter 1948	62
1st " 1949	23.8
2nd " 1949	21.8
3rd " 1949	24.6
4th " 1949	38.1
1st " 1950	35.8
2nd " 1950	31.1
3rd " 1950	11.2
October 1950 (provisional)	20.1

In considering these figures, account should be taken of the devaluation of the Norwegian kroner in September 1949, which had the effect of increasing the value of the dollar in relation to the kroner by 42%. The figures show that, after a substantial deficit in the fourth quarter of 1949, the position improved steadily until October this year. Both the third quarter and the October deficit itself must be regarded as exceptional, since part of the imports which were to have been effected during the third quarter were postponed, the licences for the goods concerned being suspended until such time as the quota and initial position allocated to Norway in E.P.U. were known. The granting of these licences led to an appreciable increase in payments in foreign currencies which is reflected in the figures of the October deficit. Furthermore, sales of old ships were particularly

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large during the third quarter, amounting to approximately 5½ million dollars, whereas during the whole of the first eight months of 1950, they amounted to only 10 million dollars.

9. The balance of payments estimates for 1950-51 as communicated to the Organisation in December 1949 showed a probable deficit of 73.7 million dollars. Norway's new estimates, based on the assumption that the level of liberalisation of manufactured products will be maintained at 29% foresees a deficit of 115.2 million dollars. This increase in the expected deficit is due in particular, to :

- (a) a change in the terms of trade,
- (b) the amortization of debts to some Member countries which may have to be completed in a shorter period than originally expected,
- (c) the putting into force of a new system of allocation of foreign currency for tourists,
- (d) the switch to O.E.E.C. countries, after direct aid had been reduced, of certain purchases previously made in the dollar area.

On the other hand, the Norwegian Delegation believes that increased receipts from freight charges, together with certain special credits, might make it possible to cover part of the deficit caused by factors listed above.

10. The expenditure required for stockpiling raw materials and for implementing the defence programme has not been included in these figures; in any case, it is not known whether or not it will be covered by other resources. Nevertheless, four months have already elapsed since the beginning of the period covered by the estimates, and during this period the deficit amounted to only 31.3 million dollars. This fact, among other considerations, has led the Committee to doubt whether the anticipated deficit will in fact be reached.

11. Even if the deficit were reached, it seems unlikely that Norway's position in E.P.U., taking into account her initial position and quota, would be such as to oblige her to make a gold payment greater than about 3 million dollars at the end of the period 1950-51; this is shown by the following figures :

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	(\$ million)
Estimated correlative deficit to June 1951	- 115
Initial position	+ 60
20% of quota (200)	+ 40
Deficit to be financed from the second "tranche"	- 15
of which 20% payable in gold, i.e.	3

12. Norway's ability to meet this loss (or any additional loss resulting from further liberalisation) depends on her gold and dollar balance for 1950-51 and her reserves. The Committee understands that Norway is planning to achieve an approximate balance in her dollar accounts in 1950-51 on the basis of aid at the rate of 40 million dollars, taking account of the above-mentioned loss of gold to the E.P.U. and that no relaxation in the stringency of dollar imports restrictions is contemplated. There will thus be little if any scope for financing any dollar losses due to further liberalisation, save from the reserves. These gross reserves, though recently rising, are not very large. Including gold (backing of bank notes) they amounted to 98.3 millions of dollars at the end of October.

13. In the above estimates, allowance has been made for the fact that during the period 1951-52 there will be a deficit of about 75 million dollars, of which Norway has to take account when considering the permissible drain on the reserves in 1950-55. Nevertheless, it may be possible to cover the latter by means of another initial position or further credits.

EFFECTS OF NEW LIBERALISATION MEASURES

14. The Committee noted that a substantial proportion of Norway's trade is with O.E.E.C. Member countries. In 1948, this amounted to 61% of total trade, and to 67.5% during the first six months of 1950.

15. The Committee considered what effect the freeing of shipping would have on Norway's position. It noted the following points: the Norwegian Delegation indicated that applications already

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submitted for the import of ships amounted to about 70 million dollars; this made no allowance for any additional applications which might be made as a result of liberalisation. If, however, as is usual in this kind of transaction, payments for these imports were spaced out over a given period, only about 20% of the total amount of orders placed would have an immediate effect on the balance of payments in 1950-51. Moreover, the increased freights resulting from these imports would lead to a progressive increase in receipts in the coming years. On the other hand, ship-owners would be less inclined to try and raise capital abroad, and the effect of this might be immediately felt on the country's currency reserves. Finally, although sooner or later imports of shipping from Europe would have to be slowed down, it seemed that the complete liberalisation of this category of goods might have the effect of diverting considerably amounts of investment capital required for the country's industrial re-equipment in other economic sectors. Nevertheless, the Committee felt that it might be possible to envisage a partial liberalisation confined to certain types of ships only.

16. The Committee also considered the repercussions which might result from the liberalisation of manufactured products other than shipping. Products in this category may be divided into two groups, i.e. capital goods (machinery) or consumer goods (textiles).

17. The Committee had considerable difficulty in estimating the probable effects on the balance of payments of liberalising items in these categories. According to certain Norwegian estimates these effects might be very considerable. For example, it has been estimated that the liberalisation of imports of textiles, if it involved as it probably would, the abolition of clothes rationing, might involve an increased import of 300 million kroner (i.e. about 40 million dollars) per annum. Again, it has been estimated that the liberalisation of imports of machinery into Norway from other Scandinavian countries alone might cost as much as 100 million kroner (i.e. about 14 million dollars) per annum.

18. The Committee has tried to obtain some idea of the possible effect of extended liberalisation by an examination of the effect of earlier extensions of liberalisations. Between the first eight months in 1948 and the first eight months in 1950 the value of imports from participants of goods already liberalised rose by some 50%. Over this period the price level of all Norwegian imports rose by some 10%. On this basis the increase in real imports of liberalised goods (which include not merely manufactured goods but also foodstuffs and raw materials) from participants may have risen

by some 40% in volume. There would, of course, no doubt have been some increase in these imports even in the absence of liberalisation. On the other hand, when applying such a percentage to the calculation of the possible effects of future liberalisation, it must be borne in mind that countries as a rule tend to liberalise first those products in which the effects of liberalisation will be least marked.

19. The effects of liberalising imports into Norway either of investment goods or of consumer goods are undoubtedly accentuated by the existence of a considerable amount of unsatisfied demand in both sectors. Though the inflationary pressure is probably less marked at the present time than in earlier years, the persistence of rationing and supply shortages in the consumer goods sector, and of unsatisfied demands for import licences in the investment goods sector, provide evidence of such pressure. The existence of a volume of means of payment substantially in excess of the pre-war norm in relation to the national income, and the maintenance of a cheap money policy undoubtedly contribute to this inflationary pressure, but the primary cause is to be found in the exceptionally high level of investment expenditure entailed in the Norwegian reconstruction programme. The level of net investment in Norway (25% of the national income in 1949) is one of the highest in Europe. This exceptionally high investment programme which is carefully planned so as to make the maximum contribution to viability by expending production capacity in the export trade cannot be radically reduced without impairing to some extent Norway's prospects of balancing her external accounts by the end of the E.R.R. period. Moreover, it is clear that Norway, while exercising some control over consumption by means of rationing and high taxation, and over investment by means of control of building licences and selective credit control, depends to a considerable extent on import licensing as a means of keeping within bounds both investment and consumption expenditure. Her reliance on this instrument is favoured by the fact that so large a proportion of her supplies of manufactured goods, both for consumption and for investment, are obtained from abroad.

20. Nevertheless, if Norway is ever to make progress towards the ultimate goal of full liberalisation, she must find ways of restricting the level either of consumption or of investment expenditure by means which do not involve the restriction of imports. From information given to the Committee it would appear that Norway is already making considerable steps in this direction by reducing the governmental sector of the investment programme, by increasing taxation, and by curtailing certain

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types of credit. This contraction has been forced upon her by the prospect of dwindling external financial assistance. It seems to the Committee that, in the interest of liberalisation, the Norwegian Government should intensify its efforts in this direction.

21. So far as the Committee is in a position to judge, the primary significance of Norway's import restrictions would seem to lie in the control which the Norwegian Government is thereby enabled to exercise over the volume and composition of consumption and investment demand, rather than in any protectionist effects; though in certain sectors, e.g. textiles, such effects may have some importance.

22. The Committee was inclined to think that the effects of a partial liberalisation in the field of ships and machinery might be less adverse than the effects of a comparable liberalisation in the field of consumption in so far as

- (a) the supply situation might reduce the probability that liberalisation results in a very large expansion of imports, and
- (b) in so far as such an expansion of imports were to give rise to balance of payments difficulties which necessitated their subsequently being suspended, the worst that could have happened would be a temporary distortion of the investment programme, rather than an unnecessary curtailment of it.

CONCLUSIONS

The Committee was of the opinion that, in view of the current balance of payments outlook, Norway was justified in claiming inability to attain a level of 60% liberalisation in manufactured goods. On the other hand, the present level of liberalisation in this category, namely, 29.4% seemed to the Committee to be unjustifiably low. While it was impossible to be sure that an extension of liberalisation in this category would not involve Norway in balance of payments difficulties at some later date the Committee considered that it was the duty of all governments to take reasonable risks in the interest of liberalisation. They believed that Norway could reasonably be expected to advance its percentage of liberalisation in the manufactured goods sector forthwith to the level of 40%, an advance of approximately 10%, thus raising its overall percentage of liberalisation from 44.7% to 52%.

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On the basis of the result of previous liberalisation in Norway, it seemed to them possible for the Norwegian Government so to select the sectors to be liberalised as to involve an increase in imports from participants of less than 15 million dollars which, if financed out of the second tranche of E.P.U. credits, would entail a possible gold and dollar cost of less than 3 million dollars. The Committee wished to add that it had arrived at this view in the light of the current situation only and that it in no way prejudices any view that may be taken of Norway's position in respect of the 75% stage of liberalisation.

Paris, 14th November, 1950.

Mr. CHRISTIDIS

Mr. FLEMING

Mr. FRIIS

Mr. GOETZ

Mr. KLOSS